

Monthly Update

Fund commentary

Farewell to an old friend – USD bank subordinated debt. A new opportunity in bank hybrids.

Credit markets took a breather in August post the substantial rally over the past six months or so. Whilst we largely view them as noise, there are numerous geopolitical themes prompting investors to sit on the sidelines.

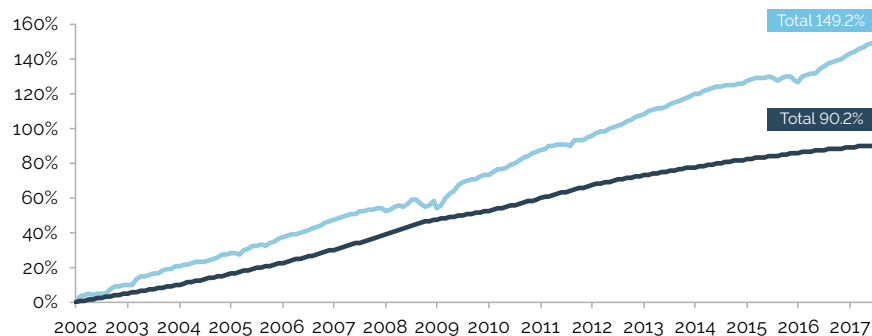
During the month we completed the sell down of our USD Westpac and ANZ bank subordinated debt position. Few investments better highlight the contrarian nature of the Fund than these. Their long term tenor and small coupons saw them aggressively devalued post the GFC, creating an opportunity to invest in two quality banks, where the bond structure was highly sensitive to higher US interest rates and changes to

bank capital rules – perfectly aligned with our long term views. This position ultimately generated over a 50% cumulative return for us and our co-investors – one of the best fixed income anomalies we have ever seen.

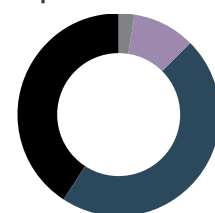
Despite recent strong credit market performance, we continue to identify new investment opportunities. We rotated some of the above capital into an old ANZ hybrid security which doesn't contain the same unfavourable terms as more recently issued bank hybrids, yet was being priced like one of them. With a yield of Bills + ~300bp (initial ~4.70%) for just two years, we think it stands out.

Fund performance (net of fees)	Inception Date	Exit Price (\$, cum)	1 Month	3 Months	6 Months	1 Year	3 Years pa	5 Years pa	Since Inception pa	Total Return
Enhanced Yield Fund	02-2002	1.1261	0.2%	1.0%	2.5%	5.9%	3.6%	4.3%	6.1%	149.2%
RBA cash rate			0.1%	0.4%	0.8%	1.5%	1.9%	2.3%	4.2%	90.2%
Excess			0.0%	0.6%	1.7%	4.4%	1.7%	2.1%	1.8%	59.0%

Total return since inception



Effective exposure



Cash	40.7%
Corporate Bonds	46.8%
Hybrid Securities	9.9%
Equity Income Strategies	2.6%

Yield security maturity profile		Top 10 exposures**		Regional allocation	
0-1 Year	43.9%	NAB	4.2%	Australia	29.3%
1-2 Years	12.6%	CBA	3.7%	Europe	10.7%
2-3 Years	12.3%	ANZ	3.7%	United Kingdom	10.1%
3-4 Years	7.0%	IAG Finance	3.2%	North America	7.1%
4 Years +	24.2%	Wells Fargo	3.1%	New Zealand	2.1%
		Taurus	3.0%	Cash	40.7%
		Seek Ltd	2.9%		
		Lar Espana Real Estate	2.9%		
		Tesco Property Finance PLC	2.4%		
		Tattersalls	2.4%		
Risk/return		Duration			
Standard deviation (1 year)	0.62%			Interest rate*	0.15
Maximum drawdown	3.26%			Average term to maturity*	2.59
Percentage of positive months	86.6%				

*These numbers are estimates and should be used as a guide only. **Excludes cash and equity income strategies.

PM Capital Limited, founded in 1998, is a globally-focussed fund manager that invests money on behalf of private clients, the clients of financial advisers and institutions. PM Capital's goal is to build long term wealth by investing in global markets with patience and conviction.

Investment philosophy

We aim to build long term wealth together with our co-investors by finding and exploiting investment anomalies around the world. Using a focused, patient and considered approach to finding simple investment ideas produces the best environment for creating that long term wealth.

Our experience has shown us that while the market is largely efficient, it can, and regularly does, misprice a small proportion of companies. This mispricing can arise as a result of any number of reasons, but is most often associated with disruptive or cyclical change, new information which is misunderstood by the market as having a permanent impact when it is in fact transitory, or just because they are operating in a sector out of favour with investors.

Our unique process is based on scanning the world for those companies (hence the radar in our logo), discovering the associated valuation anomalies and extracting value from them. We buy good businesses at a good price; businesses that we believe are being valued differently to their long term intrinsic value, but will return to their correct value over time.

Who manages the investment?

Jarod Dawson is the Portfolio Manager and has been managing the portfolio since 2004. Assisted by John Whelan, together they have over 30 years' combined industry experience. Jarod and John are also supported by the broader investment team, with Paul Moore as CIO who has over 30 years' experience in successfully managing investment funds.

Why the Enhanced Yield Fund?

Dependable: A minimum 20% cash position helps the Fund to preserve capital and achieve its return objectives with low volatility. The Fund's process is effective and repeatable, based on a proven philosophy. This Fund has been producing attractive returns for co-investors for more than 15 years, and is one of the longest running yield funds of its kind.

Careful: We have an authentic investment process where our exposure to industry sectors, geographic regions or market capitalisation is determined solely by our conviction in individual risk/reward opportunities that we identify. All holdings within the Fund have been intensively researched by our investment team. No conviction = no investment.

Co-investment: Our co-investors receive access to a unique subset of opportunities which they would otherwise find difficult to replicate. PM Capital and some of its staff have meaningful investments in the Fund - they invest for and with you.

Key Company Details

Fund category

Fixed income

Investment style

Fundamental, bottom-up-research intensive approach

Inception date

1 March 2002

Fund size

\$433.6 million

Strategy size

\$645.9 million

Minimum direct investment

\$20,000

Recommended investment time

Two years plus

Fees (p.a.)

Management fee: 0.55%.

Performance fee: 25% of net excess above RBA Cash Rate (subject to a high watermark)

Buy / sell spread

0.2% (Round trip)

Investor profile

The Fund may be appropriate for investors seeking capital preservation and potential return in excess of the Reserve Bank of Australia's (RBA) cash rate with a low degree of volatility

Important Notice

This Report is issued by PM Capital Limited ABN 69 083 644 731 AFSL 230222 as responsible entity for the PM Capital Enhanced Yield Fund (ARSN 099 581 558, the 'Fund'). It contains summary information only to provide an insight into how we make our investment decisions. This information does not constitute advice or a recommendation, and is subject to change without notice. It does not take into account the objectives, financial situation or needs of any investor which should be considered before investing. Investors should consider a copy of the Product Disclosure Statement which available from us, and seek their own financial advice prior to investing. The PDS explains how the Fund's Net Asset Value is calculated. Past performance is not a reliable guide to future performance and the capital and income of any investment may go down as well as up. The investment objective is not a forecast, and is only an indication of what the investment strategy aims to achieve over the medium to long term.

Effective 31 May 2017 FundBPO Pty Ltd commenced as custodian for the Fund (replacing UBS Nominees Pty Limited). FundBPO has itself has appointed JP Morgan to provide sub-custody services. Further information about FundBPO is available at www.mainstreambpo.com.

1. Returns are calculated from exit price to exit price assuming the reinvestment of distributions for the period as stated and represent the combined income and capital return. The Index is RBA Cash Rate. See www.rba.gov.au for further information.

Monthly Return Series Since Inception

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	CYTD
2017	0.7%	0.7%	0.4%	0.4%	0.6%	0.5%	0.4%	0.2%					3.9%
2016	-1.1%	-0.3%	1.5%	0.6%	0.3%	0.2%	0.8%	0.7%	0.5%	0.2%	0.6%	0.6%	4.7%
2015	0.0%	0.7%	0.3%	0.5%	0.1%	-0.2%	0.3%	-0.1%	-0.8%	0.8%	0.2%	0.0%	1.7%
2014	0.5%	0.3%	0.3%	0.5%	0.4%	0.5%	0.3%	0.2%	0.2%	0.1%	0.0%	0.3%	3.7%
2013	0.7%	0.4%	0.7%	0.5%	0.5%	-0.1%	0.6%	0.4%	0.5%	0.6%	0.1%	0.7%	5.6%
2012	0.7%	0.6%	0.7%	0.4%	0.1%	0.5%	0.7%	0.5%	0.5%	0.7%	0.4%	0.6%	6.6%
2011	0.4%	0.8%	0.4%	0.6%	0.3%	0.2%	0.1%	0.0%	-0.5%	1.6%	0.2%	0.0%	4.3%
2010	0.5%	0.0%	0.9%	0.8%	0.0%	0.6%	0.9%	0.5%	1.1%	0.7%	0.5%	0.8%	7.5%
2009	1.5%	-2.3%	1.0%	2.5%	1.5%	1.4%	1.6%	1.1%	0.3%	0.6%	0.2%	1.0%	11.0%
2008	-0.4%	-0.6%	0.6%	1.0%	0.5%	-0.7%	1.3%	1.4%	0.2%	-1.9%	-1.0%	0.5%	0.8%
2007	0.6%	0.5%	0.5%	0.6%	0.6%	0.4%	0.5%	0.6%	0.4%	0.4%	0.1%	0.6%	6.0%
2006	1.0%	0.4%	0.6%	0.8%	0.2%	0.5%	0.5%	0.9%	0.5%	0.6%	0.6%	0.8%	7.8%
2005	0.3%	0.6%	-0.1%	-0.4%	1.7%	0.5%	1.3%	0.2%	0.4%	-0.3%	1.3%	0.6%	6.2%
2004	0.8%	0.4%	0.3%	0.1%	1.1%	0.7%	-0.4%	0.2%	0.7%	0.8%	0.9%	0.8%	6.5%
2003	1.0%	0.0%	0.6%	2.1%	1.2%	0.8%	0.5%	0.7%	0.0%	1.1%	0.6%	0.6%	9.5%
2002			2.6%	0.9%	1.0%	-0.5%	0.4%	0.0%	0.2%	2.2%	1.7%	0.0%	8.7%

Further Information

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